



UNIVERSITI PUTRA MALAYSIA

**PERCEPTION OF RURAL COMMUNITY ON THE EFFECTIVENESS OF
MICROFINANCE IN POVERTY ERADICATION PROGRAM**

SURYANI BINTI DARHAM

FP 2007 17

**PERCEPTION OF RURAL COMMUNITY ON THE EFFECTIVENESS OF
MICROFINANCE IN POVERTY ERADICATION PROGRAM**

By

SURYANI BINTI DARHAM

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirement for the Degree of Master of Science**

January 2008



Dedication

To

My beloved parents;

Haji Darham bin Drahman

&

Hajah Dayang Masni binti Awang Damit

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Master of Science

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PERCEPTION OF RURAL COMMUNITY ON THE EFFECTIVENESS OF MICROFINANCE IN POVERTY ERADICATION PROGRAM

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January, 2008

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Chairman : Assoc. Prof. Dr. Zainal Abidin bin Mohamed

Faculty : Agriculture

Amanah Ikhtiar Malaysia (AIM) has distributed a total of RM 1.02 billion to 147,554 participants in rural areas under the microcredit program since it established in 1987. Following the footstep of Grameen Bank in Bangladesh, AIM is one of the NGOs, which plays an important role in lifting up the poor households out of poverty. AIM provided microcredit loan and non-financial assistance to the poor to increase their income through income generating activities. Thus, the objective of the study is to investigate the effectiveness of AIM microfinance as perceived by the recipients in eradicating poverty among rural poor.

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A sample of 1218 recipients that took loan from AIM in six states were selected as respondents to the study. In this study, purposive random sampling strategy was adopted. The surveys were conducted in the Northern Region, which consists of three states (Perlis, Kedah and Perak), two states in

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Eastern Region (Kelantan and Terengganu) and Sabah. After choosing these states, several towns in each states has been selected. The reason for choosing these states was due to its highest incidence of poverty in Malaysia meanwhile those towns were selected because the poverty incidence were high as well. Since AIM borrowers have a weekly meeting at a center, a random sample was drawn from AIM meeting centers in each town and identify the respondents who met the criteria for inclusion in this study.

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Descriptive analysis, chi-square analysis, factor analysis and logit model were applied to determine the effectiveness of AIM program as perceived by the borrowers in the eradication of poverty. The results showed majority of loan recipients agreed that AIM brought positive impacts on lives of the borrowers. On the other hand, there were significant relationships between demographic factors such as locations, level of education and years of experience as a member of AIM and level additional income generated by respondents. Factor analysis identified five factors that influence the success of AIM program from the recipients' perceptions. These factors were as follows: community support, skills and knowledge development, decision making, income generating activity and improvement of well-being.

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This study explored various dimensions of respondents' perceptions towards the effectiveness of microfinance of AIM in poverty eradication program. AIM activities are perceived by its recipients as effective and do contribute to

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poverty alleviation in Malaysia. AIM not only acts as an economic stimulator, but also far reaching social impacts on its members. This shows that microfinance institutions are a significant part of the infrastructure necessary for rural development.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk Ijazah Master Sains

**PERSEPSI KOMUNITILUAR BANDAR KE ATAS KEBERKESANAN
KEWANGAN MIKRO DALAM PROGRAM MENGHAPUSKAN
KEMISKINAN**

Oleh

SURYANI BINTI DARHAM

Januari 2008

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Amanah Ikhtiar Malaysia (AIM) telah mengagihkan kredit berjumlah RM 1.02 billion kepada 147,554 peserta di kawasan luar bandar di bawah program kredit mikro semenjak ia ditubuhkan pada 1987. Dengan menggunakan pendekatan Grameen Bank di Bangladesh, AIM merupakan salah satu daripada badan bukan kerajaan (NGO) yang memainkan peranan yang penting dalam membantu isirumah yang miskin keluar dari kemiskinan. AIM memberikan pinjaman kredit mikro dan bantuan bukan kewangan kepada golongan miskin untuk meningkatkan pendapatan melalui aktiviti meningkatkan pendapatan. Oleh itu, objektif kajian ini adalah untuk mengkaji keberkesanan kewangan mikro AIM dari pandangan peserta dalam menghapuskan kemiskinan di kalangan penduduk miskin luar bandar.

Seramai 1218 peserta yang mendapat pinjaman AIM dari enam negeri telah dipilih sebagai responden untuk kajian ini. Dalam kajian ini, strategi persampelan rawak bertujuan telah digunakan. Tinjauan telah dilakukan di tiga negeri di Zon Utara (Perlis, Kedah, Perak), dua negeri di Zon Timur (Kelantan dan Terengganu) dan Sabah. Selepas negeri-negeri tersebut dipilih sebagai kawasan kajian, beberapa daerah di negeri-negeri tersebut juga turut dipilih. Negeri-negeri tersebut telah dipilih kerana mempunyai kadar kemiskinan yang tertinggi di Malaysia, begitu juga dengan bandar-bandar tersebut. Memandangkan sahabat-sahabat AIM menghadiri mesyuarat mingguan di pusat perjumpaan, satu persampelan secara rawak telah dilakukan untuk memilih pusat mesyuarat AIM di setiap bandar dan mengenalpasti responden-responden yang memenuhi kriteria kajian ini.

Analisis deskriptif, analisis Chi-square, analisis faktor dan model logit telah digunakan untuk menentukan keberkesanan program AIM dalam menghapuskan kemiskinan. Keputusan menunjukkan bahawa majoriti daripada penerima pinjaman bersetuju bahawa AIM telah memberikan impak yang positif terhadap kehidupan para peminjam kredit mikro. Dalam analisis Chi-square, terdapat hubungan yang signifikan antara faktor-faktor demografik seperti lokasi, tahap pendidikan dan pengalaman sebagai sahabat AIM dengan tahap pendapatan sampingan responden. Analisis faktor telah mengenal pasti lima faktor yang mempengaruhi kejayaan program AIM di kalangan sahabat dari persepsi sahabat AIM. Faktor-faktor

tersebut adalah seperti berikut: sokongan komuniti, pembangunan pengetahuan dan kemahiran, pembuatan keputusan, aktiviti peningkatan pendapatan dan peningkatan kesejahteraan.

Kajian ini meneliti pelbagai dimensi persepsi responden ke atas keberkesanan kewangan mikro AIM dalam program menghapuskan kemiskinan. Dari sudut persepsi responden, aktiviti-aktiviti AIM adalah berkesan dan turut menyumbang dalam menghapuskan kemiskinan di Malaysia. AIM bukan sahaja bertindak sebagai penjana ekonomi, malah turut memberikan impak sosial terhadap sahabat-sahabat AIM. Ini menunjukkan bahawa institusi kewangan mikro merupakan sebahagian daripada infrastruktur yang diperlukan untuk pembangunan luar bandar.

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I certify that an Examination Committee has met on 13 July 2007 to conduct the final examination of Suryani binti Darham on her Master of Science thesis entitled "Perception of Rural Community on the Effectiveness of Microfinance in Poverty Eradication Program" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.

SURYANI BINTI DARHAM

Date:

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LIST OF ABBREVIATIONS

AIM	Amanah Ikhtiar Malaysia
AIMS	Assessing the Impact of Microenterprise Services
APDC	Asian and Pacific Development Center
BancoSol	Banco Solidario
BPM	Bank Pertanian Malaysia
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
BSN	Bank Simpanan Nasional
CBN	Cost of Basic Needs
CGC	Credit Guarantee Corporation
CPI	Consumer Price Index
CPR	Center for Policy Research
CYSD	Centre for Youth and Social Development
DCI	Direct Calorie Intake
DoA	Department of Agriculture
FAMA	Federal Agricultural Marketing Authority
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
GDP	Gross Domestic Product
HIS	Household Income Survey
JBIC	Japan Bank for International Cooperation
JHEOA	Jabatan Hal Ehwal Orang Asli

JKKK	Jawatankuasa Kemajuan dan Keselamatan Kampung
KKR	Koperasi Kredit Rakyat
KMO	Kaiser-Meyer-Olkin
LPP	Lembaga Pertubuhan Peladang
MARA	Majlis Amanah Rakyat
MP	Malaysia Plan
NDP	National Development Policy
NEP	New Economic Policy
NGOs	Non-Governmental Organizations
NVP	National Vision Policy
OLS	Ordinary Least Square
PCA	Principal Component Analysis
PLIs	Poverty Line Incomes
PPRT	Program Perumahan Rakyat Termiskin
PRADAN	Professional Assistance for Development Action
RISDA	Rubber Industry Smallholders Development Authority
RM	Ringgit Malaysia
SERU	Socio-Economic Research Unit
SEWA	Self Employed Women's Association
SHARE	Society for Helping Awakening Rural Poor through Education
SHG	Self-Help Group
SPKR	Skim Pembangunan Kesejahteraan Rakyat
TEKUN	Tabung Ekonomi Kumpulan Usaha Niaga

TSPI	Tulay Sa Pag-unlad, Inc.
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States dollar
USM	Universiti Sains Malaysia
YPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia
YUM	Yayasan Usaha Maju

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Malaysia gained its independence from the British in 1957 (where Malaysia depends heavily on the export of agriculture and primary commodities). In the early years of independence, all ethnic groups (Malay, Chinese, and Indian) were separated by their economic functions. The economic activities of the Malay were largely subsistence agriculture and fishing, the Chinese were involved in commerce and tin mining, while the Indians were laborers in the rubber plantations. Therefore, agriculture constituted a substantial share of gross domestic product.

In addition, each ethnic group was segregated in terms of geographical area. The majority of the Malays lived in the northern and eastern states of Peninsular Malaysia (Terengganu, Kelantan, Kedah and Perlis). These states were basically agricultural states and were relatively underdeveloped. On the other hand, the Chinese and Indians were concentrated in the western states of Peninsular Malaysia such as Selangor, Negeri Sembilan, Perak and Pulau Pinang, which are relatively more developed and prosperous. Besides, the Malays were less urbanized compared to the Chinese and the Indians.

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Due to the inequality among ethnicity, the Government launched the New Economic Policy (NEP) in 1970, which had the overriding objective of national unity with a two-pronged strategy. The first strategy was 'to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysian, irrespective of race' while the second strategy was 'to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic functions'. In particular, it was designed to enhance the economic standing of the Malay and other indigenous people (Bumiputera).

In 1991, the National Development Policy (NDP) served as an extension of the New Economic Policy. It was aimed at balancing and sustaining the country's development and promoting human resource development. It also gave priority to the role of the private sector as the engine of national growth. National Vision Policy (NVP), which has the overriding objectives for various national initiatives over the period was introduced by the Government in 2001. This policy framework has sustained six years of effort in developing the economy while eradicating the poverty irrespective of race and restructuring society. Besides, the association of race with economic function can also be eliminated.

Since the implementations of NEP, NDP and NVP, Malaysia has achieved a very rapid economic growth and structural transformation and has significantly

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reduced poverty as well as has improved income distribution in a multiracial society. These frameworks also captured in the aspirations of the country to become developed nation by the year 2020. As can be seen from Table 1.1, Malaysia's real gross domestic product (GDP) grew at an average of 5.88 percent per year from 1980 to 2006 and resulted in ample employment opportunities that contributed to higher incomes and improved quality of life, especially among the poor.

Table 1.1 : Malaysia real GDP, 1980-2006
(RM billion)

<u>Year</u>	<u>Real GDP</u> <u>(RM billion)</u>	<u>Year</u>	<u>Real GDP</u> <u>(RM billion)</u>	<u>Year</u>	<u>Real GDP</u> <u>(RM billion)</u>
<u>1980</u>	<u>59.154</u>	<u>1990</u>	<u>105.976</u>	<u>2000</u>	<u>210.558</u>
<u>1981</u>	<u>63.260</u>	<u>1991</u>	<u>116.094</u>	<u>2001</u>	<u>211.227</u>
<u>1982</u>	<u>67.018</u>	<u>1992</u>	<u>126.410</u>	<u>2002</u>	<u>220.423</u>
<u>1983</u>	<u>71.207</u>	<u>1993</u>	<u>138.915</u>	<u>2003</u>	<u>232.495</u>
<u>1984</u>	<u>76.734</u>	<u>1994</u>	<u>151.714</u>	<u>2004</u>	<u>249.313</u>
<u>1985</u>	<u>76.062</u>	<u>1995</u>	<u>166.625</u>	<u>2005</u>	<u>262.175</u>
<u>1986</u>	<u>76.939</u>	<u>1996</u>	<u>183.292</u>	<u>2006</u>	<u>276.595</u>
<u>1987</u>	<u>81.085</u>	<u>1997</u>	<u>196.714</u>		
<u>1988</u>	<u>89.143</u>	<u>1998</u>	<u>182.237</u>		
<u>1989</u>	<u>97.219</u>	<u>1999</u>	<u>193.420</u>		

Source: International Monetary Fund (IMF), 2006

Under all these policies, the Government has implemented the relevant projects and programs to deal with the issues of general and hardcore poverty irrespective of ethnicity in the rural and urban areas as well as economic sectors. In this regard, the thrusts of the Ninth Malaysian Plan are to reduce the incidence of general poverty to 2.8 percent and to eradicate hardcore poverty by 2010 (9th Malaysia Plan, 2006). The Government has also adopted tougher measures in the fight against poverty. It plays the leading role in poverty

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